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SUBJECT: FDI in China: Which Way Will the Pendulum Swing?

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¶1. (SBU) Summary: Chinese Vice Premier Li Keqiang's January 29 speech at Davos and recent State Council guidelines encouraging foreign direct investment (FDI) in China indicate continued support at senior levels of government for economic reform and a more open investment climate, according to a senior scholar at a Ministry of Commerce (MOFCOM)-affiliated think tank. However, our contact cautioned that a "Cold War mindset" among some policymakers might thwart reform progress and instead strengthen the recent trend towards state-led growth. Comment: Despite some central decision makers' recent reiteration of support for FDI, foreign companies continue to report significant and growing challenges in doing business in many sectors, and serious concerns remain about whether China's increasing use of industrial policies to skew the playing field toward domestic "champions" indicates a fundamental shift away from its decades-long policies of reform and opening. End Comment and Summary.

Support for FDI among Senior Officials Still Strong?  
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¶2. (SBU) In a January 29 meeting with EconOffs, Director General of the MOFCOM-affiliated think tank Beijing New Century Academy on Transnational Corporations Wang Zhile credited FDI with significantly contributing to China's economic development and argued that even though China was now less dependent on their capital, multi-national corporations (MNCs) continued to provide the management experience and technology that was critical for China's continued economic growth. He said that his views enjoyed support among some senior Chinese leaders, including Vice Premier Li Keqiang and Chongqing Party Secretary Bo Xilai. Wang praised Li Keqiang's January 29 speech at the World Economic Forum in Davos, in which Vice Premier Li noted the importance of FDI and called for breaking up SOE monopolies in China.

¶3. (SBU) According to Wang, this high-level support for FDI was also evident in the working guidelines on foreign investment adopted at the December 30, 2009, State Council Executive Meeting chaired by Premier Wen Jiabao. The guidelines call for the government to expand market access sectors; encourage FDI in high-end manufacturing, high-tech, modern service, new energy, energy-saving and environmental protection industries; apply industry revitalization measures equally to qualified FIEs; and encourage foreign investors to take part in reorganization and restructuring of domestic companies through mergers and acquisitions. While the guidelines are consistent with China's long-standing policies of encouraging foreign investment in these sectors, Wang was heartened by this high-level reiteration of support for FDI.

China's Shifting Views on MNCs  
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¶4. (SBU) Wang pointed out that Chinese policymakers vacillated on

the question of MNCs, at times welcoming their investment in China and at times opposing what they saw as MNCs' excessive influence over China's economy. Wang, a well-known advocate of FDI in China, expressed concern that the pendulum had swung against MNCs in recent years, as Chinese policymakers with a "Cold War mindset" had adopted measures to limit foreign companies' access to China's market and to promote SOE-led growth. Wang pointed to the growing trend towards promoting and protecting domestic "strategic industries," citing China's steel industry as one example of state-led consolidation that would restrict competition and strengthen monopolies. He said the politicization of the Google case had added to the difficulties in lobbying senior leaders in favor of foreign investment.

#### China Needs Tougher Anti-Corruption Law

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15. (SBU) Wang said that corruption was a serious obstacle to reform and economic growth, commenting that China's anti-corruption campaign focused on corrupt officials and essentially ignored companies involved in bribing officials. He argued that China should study the U.S. Foreign Corrupt Practices Act (FCPA) and adopt a similar law to crack down on corrupt business practices.

HUNTSMAN